

Legislative Health and Human Services
Committee

**Fiscal Impact of Federal Sequestration
on Health and Human Services Programs
in New Mexico**

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Presentation Outline

- National Sequestration Issues
- State Sequestration Issues
- Health and Human Services Programs' Sequestration Issues

National Sequestration Issues

National Impact of Sequestration

- The sequester consists of \$1.2 trillion in across-the-board spending reductions over 9 years from 2013 through 2021.
- This means \$1 trillion in cuts to budget authority for defense and nondefense programs and \$200 billion in lower net interest payments on the debt. These across-the-board cuts are worth \$109 billion per federal fiscal year.
- These are cuts in budget authority, and the cuts in actual spending would be impacted more slowly.
- The original Budget Control Act of 2011 specifies spending cuts to Medicare benefits are capped at 2 percent and exempts Social Security and Medicaid from sequestration.
- Other programs such as emergency unemployment benefits and housing subsidies are not exempt from sequestration.

National Impact of Sequestration (cont)

- The world economy suffered less when the United States delayed the fiscal cliff.
 - China did not have a hard landing, and the Eurozone did not break up.
- Recent news about the U.S. economy has been mostly positive.
- The biggest downside risk to the recovering economy is hitting the debt ceiling.

National Impact of Sequestration (cont)

- It's assumed the Federal Reserve reported quantitative easing will continue into 2014, and the federal funds rate will remain low until late 2015.
- It's projected that U.S. GDP will continue to grow by 2 percent in FY13 and 2.3 percent in FY14.
- Inflation in the U.S. is expected to remain subdued at 1.6 percent in FY13 and FY14.

National Impact of Sequestration (cont)

- IHS-Global Insight Inc., a major national forecaster, assumed a \$9 billion spending reduction in FFY13 due to the sequester.
- The full sequester would have meant \$85 billion in spending authority cuts this fiscal year, and \$110 billion per year thereafter, half in defense and half elsewhere.
- IHS-Global Insight Inc. assumes a deal combining tax increases (through limiting deductions, not through higher rates), with spending cuts focused on entitlements.

National Impact of Sequestration (cont)

- The news is not all positive - consumer confidence has taken a hit, most likely because of the end of the payroll tax cut.
- The loss of income should slow consumer spending growth.

Statewide Sequestration Issues

2013 Legislative Action

- Maintained high reserve levels—the Legislature did not appropriate all of the “new” money.
- Allocated higher transfer authority in Section 12 of the GAA from the operating reserve for FY13 and FY14.
- Authorized in Section 11 of the GAA an appropriation contingency of \$17 million to hold in reserve for possible federal spending cuts.

State Impact of Sequestration

- The exact impact of the sequester on the New Mexico economy and state revenues cannot be fully determined.
- Estimates of the potential impact are available from the Office of Management and Budget (OMB), Federal Funds Information for States (FFIS), and other sources.

State Impact of Sequestration (cont)

- The OMB issued guidance to federal agencies outlining their responsibility for implementing the March 1, 2013 sequester.
- The guidance does not provide the final across-the-board percentage reductions for FFY13.
- However, OMB does indicate nondefense programs will be cut about 9 percent.
- These cuts must take place by October 1, 2013 or within 7 months, instead of over one year.

State Impact of Sequestration (cont)

- The OMB released a preliminary report of potential impacts of the sequester on each state.
- The OMB estimates the minimum revenue loss in NM may be about \$98.3 million.

State Impact of Sequestration (cont)

Programs that OMB estimates will be impacted by Sequestration (in thousands of dollars)	
Education funding	\$10,500
Protections for clean air and clean water	\$1,200
Military: About 7,000 civilian DOD employees would be furloughed.	\$42,000
Army base operation funding	\$33,000
Air Force operation funding	\$10,000
Law Enforcement grants	\$135
Job Search Assistance	\$257
Child Care: Less access to child care.	\$0
Vaccines	\$54
Public Health: health threats.	\$179
Public Health: substance abuse.	\$450
Public Health: HIV tests.	\$84
STOP violence against women program.	\$40
Nutrition assistance for seniors.	\$401
Total loss to New Mexico	\$98,300

State Impact of Sequestration (cont)

- The Bureau of Business and Economic Research (BBER) estimates the impact to NM of a full sequester could be as high as \$482 million.
- The BBER also estimated New Mexico could lose about 20,000 full and part time jobs because of direct, indirect and induced impacts of the sequester.
- These cuts will be felt the most by the national laboratories, health care industry, and government sector, including the military. Other sectors will experience wage and salary reductions.

New Mexico's Economic Outlook

- The previous peak number of payroll jobs, about 830,000, is not expected to be reached again until 2016.
- Nonagricultural employment growth is expected to be only 1.2% in FY14 and 1.6% in FY15.
- Private wages and salaries, a critical driver of gross receipts taxes, are expected to grow by 4.5% in FY14 and FY15.

Federal Mineral Leasing Revenue

- The five members of New Mexico's congressional delegation signed a letter addressed to the director of the federal Office of Management and Budget (OMB) asserting that approximately \$26 million in sequestered FY13 federal mineral leasing (FML) revenue should be returned to New Mexico in FY14.

Health and Human Services Programs' Sequestration Issues

New Mexico's HHS Impact of Sequestration

- The FFIS estimates New Mexico could lose approximately \$272.2 million, or 4.6% of federal revenue under the sequestration compared to FFY12 levels.
- Reduced federal spending is expected in areas such as SNAP, mining reclamation, community employment for seniors, vocational education, clean water/drinking water grants, immunizations, community services block grants, foster care, LIHEAP, hospital preparedness, child support enforcement, nutrition assistance, and child care.